

**COMMUNITY DEVELOPMENT CORPORATION OF UTAH  
(A NONPROFIT ORGANIZATION)**

**FINANCIAL STATEMENTS AND  
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS  
YEAR ENDED JUNE 30, 2005**

# COMMUNITY DEVELOPMENT CORPORATION OF UTAH

## TABLE OF CONTENTS

	<u>Page</u>
<b><u>FINANCIAL STATEMENTS</u></b>	
Report of Independent Certified Public Accountants	1
Statement of Financial Position - June 30, 2005	2
Statement of Activities for the Year Ended June 30, 2005	3
Statement of Cash Flows for the Year Ended June 30, 2005	4
Notes to Financial Statements	6
<b><u>SUPPLEMENTARY FINANCIAL INFORMATION</u></b>	
Statement of Functional Expenses for the Year Ended June 30, 2005	13
<b><u>GOVERNMENT AUDITING STANDARDS REPORT</u></b>	
Report of Independent Certified Public Accountants on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	14
<b><u>OMB CIRCULAR A-133 REPORT</u></b>	
Schedule of Federal Awards for the Year Ended June 30, 2005	16
Report of Independent Certified Public Accountants on Compliance With Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	17
<b><u>SCHEDULE OF FINDINGS AND RECOMMENDATIONS</u></b>	19
<b><u>MANAGEMENT'S RESPONSE TO FINDINGS AND RECOMMENDATIONS</u></b>	21

**Sorensen, Vance & Company, P.C.**

**Certified Public Accountants**

A Professional Corporation

3115 East Lion Lane, Suite 220

Salt Lake City, Utah 84121

Telephone (801) 733-5055

Fax (801) 733-6783

Officer/Shareholders:

Don L. Sorensen

Gary L. Vance

Jeffrey B. Gyllenskog

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

Board of Directors  
Community Development Corporation of Utah  
Salt Lake City, Utah

We have audited the accompanying statement of financial position of Community Development Corporation of Utah (a nonprofit organization) as of June 30, 2005, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Community Development Corporation of Utah as of June 30, 2005, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 29, 2005 on our consideration of Community Development Corporation of Utah's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements and other matters. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying statement of functional expenses on page 13 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards on page 16 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

*Sorensen, Vance & Company, P.C.*

Salt Lake City, Utah

September 29, 2005

**COMMUNITY DEVELOPMENT CORPORATION OF UTAH**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2005**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b><u>Assets</u></b>			
Cash and cash equivalents	\$ 91,864	\$ 64,120	\$ 155,984
Investments at fair value	326,080	--	326,080
Investment in partnership, at equity value	505,065	--	505,065
Government receivables	315,053	--	315,053
Non government receivables			
net of allowance of \$10,940	131,327	75,000	206,327
Deferred receivables from sales of property	424,073	--	424,073
Inventory, net of obsolescence allowance of \$17,991	16,305	10,454	26,759
Construction projects and property held for sale	2,477,635	--	2,477,635
Land, building and equipment, at cost, net of accumulated depreciation of \$192,820	918,121	--	918,121
Prepaid expense	3,238	--	3,238
<b>Total assets</b>	<u><u>\$ 5,208,761</u></u>	<u><u>\$ 149,574</u></u>	<u><u>\$ 5,358,335</u></u>
<b><u>Liabilities and Net Assets</u></b>			
<b>Liabilities :</b>			
Government payables	\$ 521,504	\$ --	\$ 521,504
Construction lines of credit	1,237,175	--	1,237,175
Trust deed notes payable	407,084	--	407,084
Accounts payable	178,919	--	178,919
Accrued expenses	31,411	--	31,411
Related party payable	3,766	--	3,766
Other	1,300	--	1,300
<b>Total liabilities</b>	<u><u>2,381,159</u></u>	<u><u>--</u></u>	<u><u>2,381,159</u></u>
<b>Net assets:</b>			
Unrestricted	2,827,602	--	2,827,602
Temporarily restricted	--	149,574	149,574
<b>Total net assets</b>	<u><u>2,827,602</u></u>	<u><u>149,574</u></u>	<u><u>2,977,176</u></u>
<b>Total liabilities and net assets</b>	<u><u>\$ 5,208,761</u></u>	<u><u>\$ 149,574</u></u>	<u><u>\$ 5,358,335</u></u>

The accompanying notes are an integral  
part of the financial statements.

**COMMUNITY DEVELOPMENT CORPORATION OF UTAH**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2005**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Support and revenue:</b>			
Government grants	\$ 980,615	\$ --	\$ 980,615
Partnership income	505,065	--	505,065
Other grants	68,617	--	68,617
Contributions	39,768	251,650	291,418
In-kind contributions	23,585	--	23,585
Net gain on sale or disposition of properties	45,679	--	45,679
Recaptured funds	--	29,501	29,501
Net investment return	24,651	--	24,651
Other revenues	39,827	--	39,827
Rent revenue	16,604	--	16,604
Total from support and revenue	<u>1,744,411</u>	<u>281,151</u>	<u>2,025,562</u>
Net assets released from restrictions (note 9):			
Satisfaction of program and donor restrictions	277,105	(277,105)	--
<b>Total support and revenue</b>	<u>2,021,516</u>	<u>4,046</u>	<u>2,025,562</u>
<b>Expenses:</b>			
<b>Program services:</b>			
Neighborhood homeownership	313,159	--	313,159
Affordability project	134,369	--	134,369
Downpayment assistance	684,175	--	684,175
Homebuyer counseling and education	204,332	--	204,332
<b>Total program services</b>	<u>1,336,035</u>	<u>--</u>	<u>1,336,035</u>
<b>Supporting services:</b>			
Management and general	307,019	--	307,019
Fund raising	69,841	--	69,841
<b>Total supporting services</b>	<u>376,860</u>	<u>--</u>	<u>376,860</u>
<b>Total expenses</b>	<u>1,712,895</u>	<u>--</u>	<u>1,712,895</u>
<b>Change in net assets</b>	<u>308,621</u>	<u>4,046</u>	<u>312,667</u>
<b>Net assets, beginning of year</b>	<u>2,518,981</u>	<u>145,528</u>	<u>2,664,509</u>
<b>Net assets, end of year</b>	<u>\$ 2,827,602</u>	<u>\$ 149,574</u>	<u>\$ 2,977,176</u>

The accompanying notes are an integral  
part of the financial statements.

**COMMUNITY DEVELOPMENT CORPORATION OF UTAH**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2005**

<b>Cash flows from operating activities:</b>	
Change in net assets	\$ 312,667
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	42,335
Provision for bad debts	10,940
Contributed inventory	(23,585)
Increase in partnership investment, at equity value	(505,065)
Dividends reinvested in securities held for investment	(13,209)
Unrealized gain on investments	(9,622)
Net realized gain on investment sales	(93)
Inventory losses due to obsolescence	3,383
Change in assets and liabilities:	
(Increase) in government receivables	(266,398)
Decrease in nongovernment receivables	30,023
(Increase) in construction properties held for sale	(919,380)
Decrease in inventories	15,132
Decrease in deferred receivables from sales of properties	6,829
Decrease in related party receivable	244,996
Decrease in prepaid expense	1,706
(Decrease) in government payables	(233,920)
Increase in accounts payable	113,137
(Decrease) in accrued expenses	(1,140)
(Decrease) in other payables	(1,306)
Increase in other payables	3,766
<b>Net cash (used) by operating activities</b>	<u><u>(1,188,804)</u></u>
<b>Cash flows from investing activities:</b>	
Purchase of property and equipment	(230,583)
Proceeds from investment sales	7,671
Purchase of investments	(3,750)
<b>Net cash (used) by investing activities</b>	<u><u>(226,662)</u></u>
<b>Cash flows from financing activities:</b>	
Net proceeds on construction lines of credit	1,067,545
Proceeds from trust deed notes receivable	293,481
Payments on trust deed notes payable	(233,526)
<b>Net cash provided by financing activities</b>	<u><u>1,127,500</u></u>
<b>Net (decrease) in cash and cash equivalents</b>	(287,966)
Cash and cash equivalents, beginning of year	443,950
<b>Cash and cash equivalents, end of year</b>	<u><u>\$ 155,984</u></u>

The accompanying notes are an integral  
part of the financial statements.

**COMMUNITY DEVELOPMENT CORPORATION OF UTAH  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2005**

**Supplemental Disclosure of Cash Flow Information:**

Cash paid during the year for interest amounted to \$42,860.

**Non cash transactions:**

During the year, the Organization received contributed inventory in the amount of \$23,585.

During the year, the Organization capitalized interest in the amount of \$2,632.

The accompanying notes are an integral  
part of the financial statements.

**NOTES TO FINANCIAL STATEMENTS**



# COMMUNITY DEVELOPMENT CORPORATION OF UTAH

## NOTES TO FINANCIAL STATEMENTS

### 1. SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

#### A. Organization

Community Development Corporation of Utah was formed in 1990 as a Utah nonprofit organization generally to improve living conditions in certain Salt Lake City neighborhoods. In recent years, the Organization has expanded its operations throughout the State of Utah. The following programs are currently in operation:

*Neighborhood Homeownership Program* provides newly constructed or rehabilitated homes which are sold to low or moderate income individuals. Beginning in 2005, the Organization entered into an Assets Control Agreement (ACA) to purchase U.S. Department of Housing and Urban Development (HUD) foreclosure homes at a price of 50% of the fair market value. This agreement with HUD and subsequent rehabilitation of the homes purchased has significantly increased housing ownership opportunities to low-income families.

*Affordability Projects Program* improves affordable homeownership opportunities for low to moderate income individuals in rural Utah by utilizing its warehouse facility for donated construction materials along with contributions from private and governmental sources.

*Downpayment Assistance Program* provides downpayment assistance for first time homebuyers with low to moderate incomes.

*Homebuyers Counseling and Education Program* provides homebuyers with financial consulting services by offering training classes for low to moderate income individuals.

#### B. Significant Accounting Policies

##### Method of Accounting

The financial statements have been stated on the accrual basis of accounting and in conformity with generally accepted accounting principles and financial reporting standards applicable to non-profit organizations.

##### Financial Statement Presentation

The Organization prepares its financial statements under the guidance of the Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. In addition, the Organization is required to present a statement of cash flows.

##### Inventory

Inventory mainly consists of home appliances and building materials and is recorded at the lower of cost, first-in-first-out (FIFO) method or market. Donated inventory is recorded at its estimated fair market value as of the date of contribution. Contributed inventory that is resold is not recorded until sold, at which time it is recorded as a contribution.

##### Investments

The Organization follows the guidance of the SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Under SFAS No. 124, investments in marketable securities with readily determinable fair values and investments in debt securities are valued at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

### **Contributions**

The Organization prepares its financial statements under the guidance of the SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, whereby grants and other contributions of cash and other assets received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Upon satisfaction of the time or purpose restrictions, restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

### **Contributed Properties, Appliances, Supplies and Services**

Contributed supplies represent other construction material valued at \$23,585.

Contributions of services are recognized in the financial statements if the services received (a) create or enhance nonfinancial assets; or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

### **Land, Building and Equipment**

The Organization capitalizes all expenditures for land, building and equipment which have a cost of \$500 or more and an estimated useful life greater than one year. Significant renewals and betterments are also capitalized. The cost of maintenance and repairs is charged to expense when incurred.

Land, building and equipment are recorded at cost or, if received as contributions, at their estimated fair value as of the date of contribution.

Depreciation is provided using the straight-line method over estimated useful lives of the assets, ranging from 3 to 39 years.

When assets are retired, or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in the statement of activities.

### **Revenue Recognition**

#### **a. Federal grants:**

The Organization recognizes revenue from federal grants when earned. Grant amounts received by the Organization through cost reimbursement contracts are deemed to be earned and are reported as unrestricted revenues when the Organization has incurred expenditures in compliance with contract requirements.

#### **b. Construction projects and property held:**

Gains or losses from the sale of neighborhood homeownership projects are recognized as revenue when the sale of the property held is consummated. Building and property costs are recorded as an asset, until sold, using the accrual method of accounting.

### **Functional Expense Allocation**

Expenses are allocated directly to the benefiting program or support service wherever feasible. Where it is difficult or impractical to directly allocate costs, the costs are pooled and then allocated to the various programs and support services based upon personnel compensation.

### **Income Taxes**

As a non-profit organization, the Organization claims exemption from Federal and State income taxes under Section 501(c)(3) of the Internal Revenue Code of 1986 and the provisions of the Utah State Corporation Franchise Tax Act. In addition, the Organization has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code. There were no unrelated business income during the audit year.

## Notes to Financial Statements - continued

### Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents are defined as cash on hand, checking and savings accounts and highly liquid investments with original maturities of three months or less.

The Organization maintains all of its cash and cash equivalents at one financial institution, which at times exceeded federally-insured limits. The Organization utilizes a sweep account whereby available funds are invested overnight. The Organization has not experienced any losses and does not believe it is exposed to significant risk for cash and cash equivalents.

### Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect certain reported amounts and disclosures in the financial statements. Accordingly, actual results could differ from those estimates.

## 2. INVESTMENTS

Investments are stated at fair value and are summarized as follows as of June 30, 2005:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation in Value</u>
Mutual funds	\$ 308,662	\$ 326,080	\$ 17,418
Total	<u>\$ 308,662</u>	<u>\$ 326,080</u>	<u>\$ 17,418</u>

Investment return is summarized as follows:

Interest and dividend income	\$ 18,857
Investment expense	<u>(3,920)</u>
	14,937
Net realized gains	93
Net unrealized gains	<u>9,621</u>
Total unrestricted investment return	<u>\$ 24,651</u>

## 3. LAND, BUILDING AND EQUIPMENT

At June 30, 2005, land, building and equipment with additions, retirements and the related accumulated depreciation are summarized as follows:

	<u>July 1, 2004</u>	<u>Additions During Year</u>	<u>June 30, 2005</u>
Land	\$ 255,677	\$ --	\$ 255,677
Buildings	316,861	--	316,861
Building improvements	97,708	180,549	278,257
Equipment and furnishings	120,292	50,034	170,526
Vehicles	<u>89,820</u>	<u>--</u>	<u>89,820</u>
Totals	880,358	230,583	1,110,941
Less accumulated depreciation	<u>(150,485)</u>	<u>(42,335)</u>	<u>(192,820)</u>
Net book value	<u>\$ 729,873</u>	<u>\$ 188,248</u>	<u>\$ 918,121</u>

Part of the Organization's land and buildings are pledged as collateral for the Organization's construction lines of credit, see note 13.

4. **RECEIVABLES AND PAYABLES WITH GOVERNMENT AGENCIES**

Receivables and payables with government agencies consisted of the following as of June 30, 2005:

	<u>Receivables</u>	<u>Payables</u>
Salt Lake County Division of Economic Development	\$ 128,791	\$ 453,466
South Salt Lake City	15,445	37,500
Salt Lake City Corporation	32,500	30,538
City of Taylorsville	55,550	--
US Dept of Housing & Urban Development	70,938	--
US Department of Agriculture	11,829	--
<b>Totals</b>	<b><u>\$ 315,053</u></b>	<b><u>\$ 521,504</u></b>

The receivables are expected to be received within one year, and are deemed to be fully collectible. However, any of the funding sources may, at its discretion, request reimbursement for expenses or return of funds, or both, as a result of non-compliance by the Organization with the terms of the contracts.

The payables to Salt Lake County Division of Economic Development, Salt Lake City Corporation and South Salt Lake City, primarily, represent CDBG loan funds and HOME funds used for construction and rehabilitation projects. These funds must be returned to the County and respective City when the projects are completed, see note 6.

5. **INVESTMENT IN PARTNERSHIP AND RELATED TRANSACTIONS**

In 2002, the Organization became a member of a newly organized limited liability company (LLC), along with a property owner to develop and construct 29 condominium units intended to be sold to low-moderate income individuals. The property owner contributed land subject to a borrowing to the LLC. Per agreement, the Organization was not required to make a capital contribution. The operating agreement required the Organization to manage the daily operations of the construction project and provided for all the project costs incurred by the Organization to be reimbursed.

- a) During the year, the LLC has realized gains from the sale of 27 of the condominium units. The Organization has recorded its investment in the partnership equity based upon its share of the profits from the sale of the units. Accordingly, investment in partnership and partnership income in the amount of \$505,065 was recorded as of June 30, 2005.
- b) As of June 30, 2005, the related party payable balance was \$3,766.

6. **CONSTRUCTION PROJECTS AND PROPERTY HELD FOR RESALE**

The Organization owns several properties, within the State of Utah which are in the process of being constructed or rehabilitated for resale to low or moderate income individuals. These assets are held for project purposes only and are not intended for long-term ownership or use by the Organization. Projects funded with HOME and certain CDBG funds must be paid back to the City or County, as applicable, when sold.

Part of the construction properties held for sale are pledged as collateral for the Organization's trust deed notes payable and construction lines of credit, see notes 8 and 13, respectively.

During the year, the Organization had 54 construction projects. Fifteen of the projects were completed and sold as of June 30, 2005. The remaining 39 construction projects were in various stages of completion at June 30, 2005 and had expended costs to date of \$2,477,635.

## Notes to Financial Statements – continued

### Sales of Property Held for Resale:

The sales of properties during the year ended June 30, 2005 are summarized as follows:

Sales price – 15 properties sold	\$ 2,295,255
Property acquisition and construction costs	<u>(2,249,576)</u>
Net gain on sales of properties	<u>\$ 45,679</u>

Deferred receivables from the sales of property amounted to \$424,073 which are secured with the respective properties and are due when first mortgage obligations are satisfied (approximately 15 years) or upon resale of the properties.

### 7. CONTINGENT NOTES RECEIVABLE

In prior years, several properties that were sold contained a discount provision in the note obligation if the buyer holds the property for at least six years. The maximum note discounts at June 30, 2005 was \$90,275. The full amount of the notes are due and payable to the Organization if the respective property is sold by the homebuyer within the first six years of ownership. The value of the notes is decreased monthly thereafter for the remaining life of the loan. In this regard, the notes are recorded at their discounted amounts since the collection is contingent upon future events. Any applicable gains will be recognized in future years if the properties are not held for the required period of time.

### 8. TRUST DEED NOTES PAYABLE

Trust deed notes payable consisted of the following at June 30, 2005:

	<u>Balance Due</u>
Original agreement with a governmental agency for \$157,000 in July, 2000. Payments are due with interest at 3% per annum upon sale of the property. During the year ended June 30, 2005, principal payments of \$33,526 were made.	\$ 57,084
Original agreement with a governmental entity in February, 2004 that would allow the Organization to borrow up to \$300,000 to fund certain construction projects. The note requires the principal to be paid with interest at 3% per annum when the property is sold.	100,000
Original agreement for \$250,000 with a non-profit organization to fund certain construction projects. The note requires the principal to be paid with interest at 7% per annum upon sale of the property or March, 2007, whichever is earlier.	<u>250,000</u>
Total Trust Deed Notes Payable	<u>\$ 407,084</u>

**9. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes at June 30, 2005:

Downpayment Assistance:	
Recaptured downpayment assistance grants	\$ 12,661
Neighborhood Homeownership	
Private contributions	49,000
Affordability Project:	
Private contributions	22,121
Homebuyer Services	
Private contributions	<u>65,792</u>
Total temporarily restricted net assets	<u>\$ 149,574</u>

At June 30 2005, the Organization had temporarily restricted HOME grant funds available for use for the Neighborhood Homeownership program. HOME grant funds used for this purpose are essentially interest free loans and must be paid back, to the government agency, upon sale of the property. Any sales proceeds in excess of the funds expended must also be returned. Thus, the amount remaining on the HOME grant contracts has not been recorded in the financial statements.

Net assets were released from restrictions by incurring expenses satisfying the restricted purposes as follows:

Homebuyer Consulting Services	\$ 103,607
Downpayment Assistance Recapture	102,499
Affordability Projects	62,349
Neighborhood Homeownership	<u>8,650</u>
Total restrictions released	<u>\$ 277,105</u>

**10. RETIREMENT PLAN**

All permanent employees who meet certain age and length of service requirements are eligible to participate in the Organization's Simplified Employee Pension Plan (SEP). The retirement plan provides for contributions by the Organization at 8% of the employees' gross salary. The Organization's contributions vest immediately to the employee. The Organization contributed \$36,434 to the SEP during the year ended June 30, 2005.

**11. LEASE REVENUE ARRANGEMENTS**

The Organization leases a duplex and a house that was purchased from Brigham City to three tenants on a month-to-month basis. These properties will be reconstructed after the tenants move out. After reconstruction, Brigham City will repurchase the properties from the Organization.

**12. RELATED PARTY TRANSACTIONS**

During the year, the Organization employed one of their board members as an interim executive director while they searched for a permanent replacement to their former deceased executive director. Compensation paid to the board member acting as the interim director amounted to \$36,467.

13. **CONSTRUCTION LINES OF CREDIT**

The Organization currently has several lines of credit with commercial lenders as follows:

	<u>Balance Due</u>
\$3,000,000 revolving line of credit facility with a commercial lender to fund the acquisition and rehabilitation of existing single family homes in connection with the HUD ACA program. The agreement requires payment with interest at the LIBOR rate plus 2.5%. The amounts due are secured by the properties purchased.	\$ 966,932
\$625,000 construction line of credit with a commercial lender to provide construction funds. The note is due in September, 2007 with interest at 1% below the prime lending rate. This credit line is secured by the Organization's office and warehouse.	165,061
\$500,000 unsecured line of credit with a commercial lender to provide housing construction funds. The note is due on August 30, 2005 with interest at the prime lending rate.	54,548
No interest \$100,000 construction line of credit with a commercial lender secured by one of the construction properties held at June 30, 2005.	<u>50,634</u>
Total construction lines of credit	<u>\$ 1,237,175</u>

14. **ECONOMIC DEPENDENCY**

The Organization receives nearly all of its support either directly or indirectly from the U.S. Department of Housing and Urban Development. A significant reduction in the level of such support, if this were to occur, may have an adverse affect on the Organization's programs and activities. In this regard, the Organization's funding sources have renewed the grant awards for the subsequent fiscal year.

**SUPPLEMENTARY FINANCIAL INFORMATION**



**COMMUNITY DEVELOPMENT CORPORATION OF UTAH  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2005**

	PROGRAM SERVICES				SUPPORTING SERVICES			
	Neighborhood Homeownership	Affordability Protect	Down Payment Assistance	Homebuyer Counseling & Education	Total Program Service	Fund Raising	Management and General	Total Supporting Services
Salaries	\$ 94,132	\$ 55,353	\$ 72,505	\$ 116,833	\$ 338,823	\$ 42,599	\$ 192,510	\$ 235,109
Payroll taxes	7,680	4,514	5,915	9,534	27,643	3,475	15,711	19,186
Fringe benefits	14,645	8,609	11,279	18,181	52,714	6,626	29,960	36,586
Professional fees	16,497	8,980	8,496	20,136	54,109	4,992	22,569	27,561
Telephone	2,587	3,509	1,024	1,936	9,056	601	2,719	3,320
Supplies	1,830	1,927	1,107	4,599	9,463	434	1,961	2,395
Occupancy	1,940	9,665	1,494	2,409	15,508	878	3,969	4,847
Repairs and maintenance	2,830	6,207	1,484	3,308	13,829	825	3,730	4,555
Marketing and conferences	1,026	3,503	532	6,306	11,367	442	1,412	1,854
Insurance	1,898	5,118	1,462	2,356	10,834	859	3,882	4,741
Postage	319	188	246	396	1,149	144	653	797
Printing	543	357	463	1,950	3,313	205	925	1,130
Travel and mileage	2,747	2,489	764	3,195	9,195	449	2,027	2,476
Interest	61	51	33	2,240	2,385	--	797	797
Neighborhood homeownership	159,550	--	--	807	160,357	--	--	--
Downpayment assistance	--	--	574,823	--	574,823	--	--	--
Fundraising consulting fee	--	--	--	--	--	6,000	--	6,000
Miscellaneous	3,603	5,933	2,548	5,759	17,843	1,312	5,483	6,795
<b>Total expenses before depreciation</b>	<b>311,888</b>	<b>116,403</b>	<b>684,175</b>	<b>199,945</b>	<b>1,312,411</b>	<b>69,841</b>	<b>288,308</b>	<b>358,149</b>
Depreciation	1,271	17,966	--	4,387	23,624	--	18,711	18,711
<b>Total expenses</b>	<b>\$ 313,159</b>	<b>\$ 134,369</b>	<b>\$ 684,175</b>	<b>\$ 204,332</b>	<b>\$ 1,336,035</b>	<b>\$ 69,841</b>	<b>\$ 307,019</b>	<b>\$ 376,860</b>
								<b>\$ 1,712,895</b>

The accompanying notes are an integral part of the financial statements.

**GOVERNMENT AUDITING STANDARDS REPORT**

**Sorensen, Vance & Company, P.C.**

**Certified Public Accountants**

A Professional Corporation

3115 East Lion Lane, Suite 220  
Salt Lake City, Utah 84121  
Telephone (801) 733-5055  
Fax (801) 733-6783

Officer/Shareholders:  
Don L. Sorensen  
Gary L. Vance  
Jeffrey B. Gyllenskog

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors  
Community Development Corporation of Utah  
Salt Lake City, Utah

We have audited the financial statements of **Community Development Corporation of Utah** (a nonprofit organization) as of and for the year ended June 30, 2005, and have issued our report thereon dated September 29, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered **Community Development Corporation of Utah's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect **Community Development Corporation of Utah's** ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and recommendations as item *05-1*.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above, item *05-1*, to be a material weakness.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether **Community Development Corporation of Utah's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of **Community Development Corporation of Utah** in a separate letter dated September 29, 2005

This report is intended solely for the information and use of the board of directors, management, the Utah State Auditor, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Shuman, Vance & Company, P.C.*

Salt Lake City, Utah  
September 29, 2005

**OMB CIRCULAR A-133 REPORT**

**Sorensen, Vance & Company, P.C.**

**Certified Public Accountants**

**A Professional Corporation**

3115 East Lion Lane, Suite 220  
Salt Lake City, Utah 84121  
Telephone (801) 733-5055  
Fax (801) 733-6783

Officer/Shareholders:  
Don L. Sorensen  
Gary L. Vance  
Jeffrey B. Gyllenskog

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS  
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors  
Community Development Corporation of Utah  
Salt Lake City, Utah

**Compliance**

We have audited the compliance of **Community Development Corporation of Utah** (a nonprofit organization) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. **Community Development Corporation of Utah's** major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and recommendations. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of **Community Development Corporation of Utah's** management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about **Community Development Corporation of Utah's** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of **Community Development Corporation of Utah's** compliance with those requirements.

In our opinion, **Community Development Corporation of Utah** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

**Internal Control Over Compliance**

The management of **Community Development Corporation of Utah** is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered **Community Development Corporation of Utah's** internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the board of directors, management, the Utah State Auditor and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Sorenson, Vance & Company, P.C.*

Salt Lake City, Utah  
September 29, 2005

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**



**COMMUNITY DEVELOPMENT CORPORATION OF UTAH  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED JUNE 30, 2005**

**CURRENT YEAR**

**A. SUMMARY OF AUDIT RESULTS**

***Financial Statements***

Type of auditor's report issued: **Unqualified**

Internal control over financial reporting:

- Material weakness identified?   X   Yes        No
- Reportable condition identified that is not considered to be a material weakness?        Yes   X   None reported
- Noncompliance material to financial statements noted?        Yes   X   No

***Federal Awards***

Internal control over major programs:

- Material weakness identified?        Yes   X   No
- Reportable condition identified that is not considered to be a material weakness?        Yes   X   None reported

Type of auditor's report issued on compliance for major programs: **Unqualified**

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?        Yes   X   No

**Identification of major programs:**

***C DFA Number***

14.239  
14.218

***Federal Program***

Home Investment Partnerships Program (HOME)  
Community Development Block Grant (CDBG)

Dollar threshold used to distinguish between type A and type B programs: **\$ 300,000**

Auditee qualified as low-risk auditee?   X   Yes        No

**B. FINDINGS RELATED TO FINANCIAL STATEMENTS**

**05-1 In-Kind Contributions**

The Organization did not record all in-kind contributions received during the year. As a result, inventory and in-kind revenue were understated and had to be adjusted at the year end to properly reflect these contribution revenues.

**Recommendation**

We recommend that the Organization establish policies and procedures to ensure that in-kind contributions are properly recorded when received.

**C. FINDINGS RELATED TO FEDERAL AWARDS**

None.

**D. STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS**

None.

**MANAGEMENT'S RESPONSE TO FINDINGS AND RECOMMENDATIONS**



COMMUNITY  
DEVELOPMENT  
CORPORATION  
OF UTAH

## Management Response to the Findings and Recommendations

### Finding 05-1

The Community Development Corporation's Board of Directors has hired a new Executive Director and Chief Financial Officer. The new management team agrees with the auditor's findings and are taking the steps necessary to correct this internal control weakness, including, but not limited to, updating policies and procedures related to in-kind contributions and the implementation of a new inventory management information system to record, track and value materials donated for use in construction projects.

Randall C Smith  
Chief Financial Officer



**Sorensen, Vance & Company, P.C.**

**Certified Public Accountants**

**A Professional Corporation**

3115 East Lion Lane, Suite 220  
Salt Lake City, Utah 84121  
Telephone (801) 733-5055  
Fax (801) 733-6783

Officer/Shareholders:  
Don L. Sorensen  
Gary L. Vance  
Jeffrey B. Gyllenskog

September 29, 2005

To the Board of Directors of  
**Community Development Corporation of Utah**  
Salt Lake City, Utah

In planning and performing our audit of the financial statements of **Community Development Corporation of Utah** for the year ended June 30, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. The objective of internal control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management, with respect either to the execution and recording of transactions or, with respect to the estimates and judgments required in the preparation of financial statements. Further, projection of any evaluation of internal control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, and that the degree of compliance with the procedures may deteriorate.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and/or operating efficiency. This letter summarizes our comments and suggestions regarding those matters. We previously reported on the Organization's internal control in our report dated September 29, 2005 in which reportable conditions and a material weakness were reported. This letter does not affect that report or our report dated September 29, 2005 on the financial statements of **Community Development Corporation of Utah**.

**1. Inventory**

The Organization currently does not have an effective inventory system to properly record inventory costs and quantities. As a result, the year end inventory listing was manually prepared based upon the physical inventory count at year end. As a consequence, inventory items donated during the year were not recorded when received.

**Recommendation**

We recommend the Organization obtain adequate inventory software to establish an efficient, cost-effective inventory system. Also, the Organization should establish policies and procedures to ensure the physical inventory is properly recorded and safeguarded. Utilizing inventory software, a detailed listing of on-hand inventory which provides inventory descriptions, quantities, unit costs and extensions should be maintained and updated on a timely basis.

**2. Warehouse Administration**

The Organization purchased a warehouse several years ago and planned to utilize the space for contributed materials for use in building homes for low income families. Over the years, the contributed materials have accumulated significantly because the items received have not been utilized. Currently, the warehouse space is nearly full with these items which may never be used.

**Recommendation**

We recommend that the Organization improve their procedures in screening these donations to determine if useable prior to receipt. Also, the Organization should review the cost/benefit of maintaining and administering the warehouse to determine if it is beneficial and meeting their original expectations.

**3. Grant Funds Collection Procedures**

We noted that the Organization had not requested for reimbursement a significant outstanding non-governmental grant receivable.

**Recommendation**

We recommend that the Organization gather and submit the necessary documentation to obtain reimbursement of the outstanding receivable. In addition, we recommend that policies and procedures be established to ensure the timely submission of grant requests in order to improve cash flow and overall cash management procedures.

**4. Contractor Payables**

- a) During our audit, we noted that two contractor payments for costs incurred prior to June 30, 2005 were not properly recorded as payables.
- b) The Organization has two cost reimbursement contracts with its contractors. We noted that invoices were voluminous and were not timely submitted by the vendors for reimbursement. This increases the risk of unrecorded payables for costs incurred.
- c) Also, we noted several accounting errors for projects sold during the year. For example, subsequent costs were recorded as construction-in-process after the houses were sold.

**Recommendation**

The Organization should establish procedures over "contract payments" to ensure costs are properly recorded. In addition, the Organization should monitor "contractor cost reimbursement" type contracts where invoices are voluminous.

**5. Inadequate Segregation of Duties**

Our audit procedures disclosed that there is not a proper segregation of duties over contributions received. The same individual is involved in recording and depositing the contributions.

**Recommendation**

We recommend that there be an adequate segregation of duties over contributions received so one person will not have full control over contributions.

**6. Retirement Plan Contributions**

Our audit disclosed that retirement plan contributions were not properly calculated due to changes in employment status and eligibility. In addition, several contributions were based on budgeted salaries instead of actual compensation paid during the year. Also, the plan adoption agreement could not be located in the Organization's files.

**Recommendation**

We recommend that the Organization obtain a copy of the adoption agreement and follow this document to ensure that retirement plan payments are properly computed. Due to the complexity of the plan requirements, this may require additional training to the personnel in charge of calculating the retirement plan contributions or consultation with a qualified professional.

**7. Office Renovation**

The Board authorized repairs to the existing section of the Organization's office building and approved the renovation at a cost not to exceed \$150,000. However, we noted that the actual costs exceeded the Board authorized amount by approximately \$30,000. The excess amount was not submitted for approval. In addition, we noted that the accountant was not aware of the Board imposed limit.

**Recommendation**

We recommend that the Organization notify and obtain proper approval from the Board when project costs exceed the approved budget limitations.

It has been a pleasure serving Community Development Corporation of Utah, and we wish to express our appreciation to your employees for the cooperation extended to us during the course of our audit.

Very truly yours,

*Sorensen, Vance & Company, P.C.*  
SORENSEN, VANCE & COMPANY, P.C.



COMMUNITY  
DEVELOPMENT  
CORPORATION  
OF UTAH

November 17, 2005

To the Board of Directors of  
**Community Development Corporation of Utah**  
Salt Lake City, Utah

As a normal part of the annual audit, our auditors Sorensen, Vance and Company issued a management letter outlining several areas where the Community Development Corporation could strengthen our internal controls. The following are the auditor's observations and recommendations followed by management's response.

**1. Inventory**

The Organization currently does not have an effective inventory system to properly record inventory costs and quantities. As a result, the year-end inventory listing was manually prepared based upon the physical inventory count at year end. As a consequence, inventory items donated during the year were not recorded when received.

**Recommendation**

We recommend the Organization obtain adequate inventory software to establish an efficient, cost-effective inventory system. Also, the Organization should establish policies and procedures to ensure the physical inventory is properly recorded and safeguarded. Utilizing inventory software, a detailed listing of on-hand inventory which provides inventory descriptions, quantities, unit costs and extensions should be maintained and updated on a timely basis.

**Management Response**

We concur that an inventory tracking system is lacking and is required for adequate inventory control. We are currently establishing inventory policies, procedures, and systems which will include a computerized inventory system to receive, track and record disposition of inventory as well as policies regarding the type of materials we will accept. The target implementation date is January 8, 2006.

**2. Warehouse Administration**

The Organization purchased a warehouse several years ago and planned to utilize the space for contributed materials for use in building homes for low income families. Over the years, the contributed materials have accumulated significantly because the items received have not been utilized. Currently, the warehouse space is nearly full with these items which may never be used.

**Recommendation**

We recommend that the Organization improve their procedures in screening these donations to determine if useable prior to receipt. Also, the Organization should review the cost/benefit of maintaining and administering the warehouse to determine if it is beneficial and meeting their original expectations.





### **Management Response**

Over the past several months the CDC management and staff have made progress on focusing the staff on the core mission of the Affordability Project by:

- Identifying early in a rehabilitation project what materials can be used from the warehouse and establish a plan to utilize that material
- Eliminating regularly scheduled public sales
- Proactively seeking donation or discounts for specific materials
- Screening potential donations based on benefit to the program
- Reducing the cost of operating the warehouse

Further we plan to re-visit the Affordability Project business case during the current year to assess the cost vs. benefit of the program and will provide recommendations to the Board at a later date.

### **3. Grant Funds Collection Procedures**

We noted that the Organization had not requested for reimbursement a significant outstanding non-governmental grant receivable.

#### **Recommendation**

We recommend that the Organization gather and submit the necessary documentation to obtain reimbursement of the outstanding receivable. In addition, we recommend that policies and procedures be established to ensure the timely submission of grant requests in order to improve cash flow and overall cash management procedures.

### **Management Response**

The current process is being changed to require that the reimbursement form is completed with all but the closing information before the DPA check is processed. Further management will regularly review the status of the DPA program including the amount available, committed, spent and receivable. This internal reporting will help to identify any delinquency in processing.

### **4. Contractor Payables**

- a) During our audit, we noted that two contractor payments for costs incurred prior to June 30, 2005 were not properly recorded as payables.
- b) The Organization has two cost reimbursement contracts with its contractors. We noted that invoices were voluminous and were not timely submitted by the vendors for reimbursement. This increases the risk of unrecorded payables for costs incurred.
- c) Also, we noted several accounting errors for projects sold during the year. For example, subsequent costs were recorded as construction-in-process after the houses were sold.

#### **Recommendation**

The Organization should establish procedures over "contract payments" to ensure costs are properly recorded. In addition, the Organization should monitor "contractor cost reimbursement" type contracts where invoices are voluminous.

### **Management Response**

Subsequent to year-end, management implemented a work order process for every construction/rehab project. This process requires the construction manager to submit a work order to accounting for all work initiated on the project. The work order includes the contractor/vendor, description, amount and completion/delivery date.

Among the benefits the Organization will realize from this process is a project specific detail of potential outstanding liabilities of the Organization whether or not we have been billed for the work or materials.

#### **5. Inadequate Segregation of Duties**

Our audit procedures disclosed that there is not a proper segregation of duties over contributions received. The same individual is involved in recording and depositing the contributions.

##### **Recommendation**

We recommend that there be an adequate segregation of duties over contributions received so one person will not have full control over contributions.

##### **Management Response**

Subsequent to this finding, management implemented an internal control procedure that eliminated this weakness. The procedure is:

- All mail is opened by two people.
- All checks are photocopied and logged in an Excel worksheet which can not be edited by accounting personnel.

Among the benefits realized from this procedure is that a source document is created that can not be altered by an individual with access to the accounting records. With this source document any specific check can be traced to the appropriate bank deposit and accounting debit entry.

#### **6. Retirement Plan Contributions**

Our audit disclosed that retirement plan contributions were not properly calculated due to changes in employment status and eligibility. In addition, several contributions were based on budgeted salaries instead of actual compensation paid during the year. Also, the plan adoption agreement could not be located in the Organization's files.

##### **Recommendation**

We recommend that the Organization obtain a copy of the adoption agreement and follow this document to ensure that retirement plan payments are properly computed. Due to the complexity of the plan requirements, this may require additional training to the personnel in charge of calculating the retirement plan contributions or consultation with a qualified professional.

##### **Management Response**

Regarding the accuracy of the contribution calculation, staff has received additional training which will solve that issue. Regarding the adoption agreement, a new adoption agreement will be created in the next couple of months.

#### **7. Office Renovation**

The Board authorized repairs to the existing section of the Organization's office building and approved the renovation at a cost not to exceed \$150,000. However, we noted that the actual costs exceeded the Board authorized amount by approximately \$30,000. The excess amount was not submitted for approval. In addition, we noted that the accountant was not aware of the Board imposed limit.

##### **Recommendation**

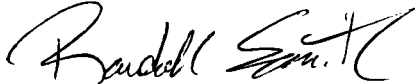
We recommend that the Organization notify and obtain proper approval from the Board when project costs exceed the approved budget limitations.

**Management Response**

Subsequent to year-end the Executive Committee of the Board implemented the requirement to review budget-to-actual results regularly. This process will assure timely Board action regarding budget variances.

We believe that the procedures which have and are contemplated will adequately address the recommendations of our auditors.

Sincerely,

A handwritten signature in dark ink, appearing to read "Randall Smith", with a stylized flourish at the end.

Randall Smith  
Chief Financial Officer